

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair
Commissioner
Commissioner
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In the Matter of an Inquiry Into Possible Effects
of the Financial Difficulties at Aquila, Inc. on
Peoples Natural Gas Company and Northern
Minnesota Utilities Company and their
Customers

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ORDER REQUIRING RESPONSES

PROCEDURAL HISTORY

On August 16, 2002, the Commission issued a Notice that at its August 29, 2002 meeting the Commission would consider what actions, if any, should be taken in this matter.

The Commission met on August 29, 2002 to consider this matter.

FINDINGS AND CONCLUSIONS

Aquila, Inc. (formerly UtiliCorp United Inc.) is an international energy and service company with headquarters in Kansas City, Missouri. It currently operates two business groups: Merchant Services (which includes Wholesale Service and Capacity Services) and Global Networks (which includes Domestic Networks and International Networks).

Aquila's Domestic Networks provide natural gas or electricity in seven states, including Minnesota. Aquila divisions that provide retail gas distribution service in Minnesota are: Peoples Natural Gas Company (PNG) and Northern Minnesota Utilities (NMU). Aquila's International Networks has electric or natural gas operations in Canada, the United Kingdom, Australia, and New Zealand.

Aquila's credit ratings have declined in recent months due to various factors, including perceived risk increases in energy trading, in domestic and foreign wholesale electric markets, and the general economic and energy market conditions. At the same time, Aquila is undertaking a major refocusing of its business activities, in part in response to its credit difficulties. The bond ratings agencies, stock analysts, and the financial press still are expressing strong concerns about Aquila's financial condition.

The financial difficulties of Aquila, Inc. have the potential to adversely affect PNG and NMU and their customers. Some potential direct and indirect effects include: reduced access to short-term operating capital; reduced access to longer-term capital; higher costs of capital; and decreases in quality of service.

The Commission has an interest in determining whether any such effects have occurred, how likely it is that they may occur in the future, and what Aquila management is doing to ensure that they do not occur, and to monitor, minimize and mitigate any effects which may occur.

Aquila has begun to provide the Commission with information on these issues, but the Commission believes it appropriate to obtain written responses to a comprehensive list of questions covering the financial and structural concerns as they may impact PNG and NMU and their customers in Minnesota. The Commission will direct the Company to provide responses to these question within two weeks of this Order.

ORDER

1. Within two weeks of this Order, Aquila shall file with the Commission, written responses to the following questions:

Questions on Corporate Structure, Finance, and Related Issues

- a. Provide organization charts and descriptions of the structure of Aquila (UtiliCorp) overall, U.S. Networks, and the Minnesota operations as of the end of 2001. Provide the same for those organizations as they now exist, and as proposed to be when the current restructuring is complete.
- b. Provide a general description of the current organization of corporate financing activities for Aquila, subsidiaries, and divisions.

Also provide more specific information on:

- i. How are the short-term credit, long-term debt, and equity needs and capital structure of PNG and NMU determined? How are each of these types of financing provided?
- ii. How would the above change when restructuring is complete?
- iii. What capital structure would be imputed/assigned to PNG and to NMU at June 30, 2002 and projected December 31, 2002?
- c. Provide a general description of the current financial situation of Aquila, including debt ratings (if different than what is described in Commission Staff August 29, 2002 briefing papers) liquidity, ability to raise long-term debt and equity, and costs of capital.

Also, provide specific information on:

- i. What issuances and redemptions of securities are projected for the next 12 months by Aquila or other corporate financing entity?
- ii. What action is Aquila management taking to mitigate the adverse impacts of credit downgrades?

- iii. What would be the impact of further downgrades of Aquila debt by bond rating agencies? What types of collateral requirements or other conditions might come into play?
- d. What obligations does Aquila have with respect to the credit facilities and other debt of its subsidiaries, partnerships, or other entities? Specifically, are there cross-default, or similar, provisions in any of the loan agreements? Does Aquila act as guarantor, endorser, surety, or other similar role with respect to its subsidiaries, partnerships, or other similar entities?
- e. What risks and potential liabilities does Aquila have with respect to Aquila Merchant Services (AMS) and any other division or subsidiary, with respect to the SEC energy trading investigation, Federal Energy Regulatory Commission (FERC) investigations, lawsuits, and similar issues?
- f. After it exits the wholesale trading business, what obligations would Aquila have for the past activities of AMS, with respect to the issues in D and E above?

Questions about Protection of PNG and NMU Ratepayers

- g. What actions are Aquila management taking to protect PNG and NMU, their ratepayers, and customers from existing and potential impacts of Aquila's financial difficulties? Specifically:
 - i. What are the projected financing needs for PNG and NMU over the next 12 months?
 - ii. What action is Aquila management taking to ensure that PNG and NMU have access to needed short-term operating capital? Is Aquila willing to make a commitment that any credit capacity of PNG and NMU will not be used by Aquila for non-utility purposes?
 - iii. What actions are Aquila management taking to ensure that PNG and NMU have access to needed long-term capital? Is Aquila willing to make a commitment that any credit capacity of PNG and NMU will not be used by Aquila for non-utility purposes?
 - iv. What actions are Aquila management taking to ensure that PNG and NMU will have access to needed equity?
 - v. What actions are Aquila management taking to assure service quality for Minnesota customers, including but not limited to: handling customer complaints, call center response time, meter reading and billing, maintenance of utility equipment and facilities; line locate requests, leak response time, new service requests, and adequate staffing levels?
 - vi. How will the announced staffing reductions in U.S. Network Services affect Minnesota operations? Provide employee counts by function assigned to Minnesota operations at the end of 2001, currently, and projected after restructuring is complete.

- h. Does Aquila plan to ask the Minnesota Public Utilities Commission for rate relief that is in any way associated with its current financial difficulties? How does the current corporate restructuring relate to the pending Minnesota general rate case?
2. The Executive Secretary is hereby delegated authority to establish specific procedures and comment periods and to vary those procedures or comment periods for good cause.
3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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